

2004 - 2005 ANNUAL REPORT

GENERAL FUND EXPENDITURE PERFORMANCE

Contents

The General Fund Expenditure Performance section includes the following elements:

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Definitions

In the discussions contained in this document, the following definitions are used:

Budget – refers to 2004-2005 appropriations as modified by Council through June 30, 2005, plus 2003-2004 carryover encumbrances.

Expenditure – refers to actual 2004-2005 expenses plus encumbrances.

Year-End Estimate – refers to the City Manager's Budget Office's projection of year-end expenditures and encumbrances that were used to develop the General Fund beginning fund balance estimate used in the 2005-2006 Adopted Budget.

Overview

As shown in the following table, General Fund expenditures and encumbrances through June 30, 2005 totaled \$692.6 million. This expenditure total was up \$11.3 million, or 1.7%, from the June 2004 level of \$681.2 million, but was \$169.6 million below (down 19.7%) the modified budget total of \$862.2 million. Excluding \$103.8 million in reserves, the remaining savings were \$65.8 million (8.7%).

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Overview (Cont'd.)

TABLE B
2004-2005
BUDGET TO ACTUAL VARIANCES
(In 000s)

Category	Modified Budget	Actual	Variance	% Variance
<i>Personal Services</i>	\$ 504,135	\$ 497,637	\$ 6,498	1.3%
<i>Non-Personal/Equipment/Other</i>	87,425	81,779	5,646	6.5%
<i>City-Wide Expenses</i>	130,515	88,369	42,146	32.3%
<i>Capital Contributions</i>	30,166	18,622	11,544	38.3%
<i>Transfers</i>	6,157	6,157	-	0.0%
<i>Reserves</i>	103,774	-	103,774	100.0%
TOTAL GENERAL FUND	\$ 862,172	\$ 692,564	\$ 169,608	19.7%

The expenditure savings achieved represents by far the largest element of the General Fund's total \$166.1 million ending fund balance.

Due to the projected revenue shortfall, for the fourth year in a row, departments were required to meet reduction targets and submitted Cost/Position Management plans. Appropriations were decreased during the Mid-Year Budget Review to reflect these reduction targets. Even with reduced budgets, as reflected in Table D found later in this section, significant departmental savings were still achieved by year-end. Those departments with significant variances beyond those expected are discussed later in this document.

As can be seen in the above chart, the largest single category of savings occurred, as planned, in the Reserves category (\$103.8 million). The most significant reserve categories remaining at year-end included the following: 2005-2006 Future Deficit Reserve (\$12.5 million); Development-Related Activities Reserves (\$11.1 million), Economic Uncertainty Reserve (\$10.4 million); Workers' Compensation Reserve (\$10.0 million); Enhanced Park Maintenance (\$6.3 million), and Future Capital Projects (FF&E) Reserve (\$5.2 million). Additional, detailed discussion of the reserve status can be found later in this section of the document.

Personal Services savings of \$6.5 million totaled only 1.3%. This relatively small savings level was approximately as anticipated, and was also very close to the levels experienced in recent years: 2003-2004 at 0.8%; 2002-2003 at 1.1%; 2001-2002 at 1.8%; 2000-2001 at 2.1%; and 1999-2000 at 1.5%.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Overview (Cont'd.)

The very small savings level reflects a number of factors: the prospective savings that were removed from departmental budgets during the year as part of the Cost/Position Management Plan process, the budgeted vacancy factors included in almost all departmental budgets, and the tight staffing situation imposed by three straight years of position eliminations. The majority of personal services savings that were achieved at year-end were actually generated by only three departments: Police (\$2.1 million); Planning, Building, and Code Enforcement (PBCE) (\$1.1 million); and Fire (\$985,000). The Personal Services savings in all departments were primarily generated from vacant positions, and much of the savings in the PBCE Department is proposed in this document to be transferred to the Planning and Building Program Development Program Fee Reserves.

General Fund Non-Personal/Equipment/Other¹ expenditures and encumbrances ended the year at \$81.8 million, generating savings from the budgeted level of approximately \$5.6 million (6.5%). A portion of these savings (\$2.3 million) was rebudgeted into 2005-2006 as part of the Adopted Operating Budget. The majority of departmental rebudgets were generated by the following departments: Police (\$972,000); Planning, Building, and Code Enforcement (\$791,000); Finance (\$363,000); Library Grants (\$304,000); and Cultural Affairs (\$149,000). After factoring in these rebudgets, adjusted Non-Personal/Equipment/Other savings totals approximately \$3.3 million (3.8%).

The significant variances in the City-Wide Expenses and Capital Contributions categories are discussed in *Highlights of Non-Departmental Expenditures and Variances* that can be found later in this section.

In formulating the beginning fund balance estimate included in the 2005-2006 Adopted Budget, the Budget Office utilized projections for year-end expenditure savings. As shown in the following Table C, the actual General Fund Expenditures, Transfers, and Reserves of \$692.6 million were \$34.9 million below (4.8%) the estimated level. This performance, however, primarily reflects a number of projects in both City-Wide Expenses and Capital Contributions that were not completed as planned and are now recommended to be rebudgeted as a part of this document. Included in this variance is a net \$2.4 million of Fee Program related net expenditure and revenue savings that is recommended to be added to the Fee Reserves to reconcile actual fee program expenditures/revenues for 2004-2005.

Nearly all the year-end fund balance variance was in the expenditures subcategory, which was approximately \$35.0 million below (4.9%) the budgeted estimate of \$721.4 million. After considering recommended rebudgets/technical adjustments of \$10.6 million, the net variance from the budgeted estimate was only \$24.4 million (3.4%) of the estimated expenditure subtotal.

¹ The "Other" category expenditures are primarily comprised of budgets for the Library Department grants program and the Parks, Recreation and Neighborhood Services fee activities program.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Overview (Cont'd.)

TABLE C
2004-2005
BUDGETED ESTIMATE TO ACTUAL VARIANCES
(In 000s)

Category	Estimate	Actual	Variance	% Variance
<i>Expenditures</i>	\$ 721,444	\$ 686,407	\$ 35,037	4.9%
<i>Transfers</i>	6,157	6,157	-	0.0%
<i>Reserves</i>	(184)	-	(184)	N/A
<i>Total</i>	\$ 727,417	\$ 692,564	\$ 34,853	4.8%

Review of General Fund Expenditure Performance

Departmental costs (\$579.4 million) represented approximately 83.7% of total 2004-2005 General Fund expenditures. As can be seen in Table D, all departments with the exception of Public Works remained within their total budget allocation and expended a cumulative 97.9% of their budgets. The Public Works Department personal services appropriation was over-expended at year-end and was ratified by Council action at its September 20 meeting. This variance was the result of higher than anticipated expenditures for Special Assessment District related activities and Public Works Fee Program activities. Of the City departments/offices, fourteen had expenditure savings of less than 5.0% and six had savings between 5.0-10.0%.

Those departments with General Fund expenditure variances over 5.0% and a minimum value of \$400,000 are discussed in detail in the following section. In addition, the year-end status of expenditures for both the Police and Fire Departments are also summarized.

Non-departmental expenditures totaled \$113.1 million, or 16.3% of the total 2004-2005 General Fund expenditures. In this category, 67.8% of the amount budgeted (excluding reserves) was expended. The reserves represent the largest portion of the unexpended funds and, as planned, are being carried over or utilized in 2005-2006. It is also important to note that the majority of savings in the City-Wide and Capital Contributions categories have been or will be rebudgeted to the new fiscal year for their intended uses.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Review of General Fund Expenditure Performance (Cont'd.)

TABLE D
TOTAL GENERAL FUND EXPENDITURES (In \$000s)

Departmental	2004-2005 Modified Budget	2004-2005 Expenditures	Variance	% Variance
City Attorney	\$ 12,240	\$ 12,154	\$ 86	0.7%
City Auditor	2,314	2,107	207	8.9%
City Clerk	2,296	2,127	169	7.4%
City Manager	6,585	6,553	32	0.5%
Cultural Affairs	2,408	1,871	537	22.3%
Economic Development	1,840	1,831	9	0.5%
Emergency Services	246	231	15	6.1%
Employee Services	6,035	5,998	37	0.6%
Environmental Services	1,751	1,199	552	31.5%
Finance	8,196	7,940	256	3.1%
Fire	121,488	120,212	1,276	1.1%
General Services	30,027	29,312	715	2.4%
Independent Police Auditor	707	687	20	2.8%
Information Technology	13,734	13,595	139	1.0%
Library	23,523	22,886	637	2.7%
Mayor & City Council	7,199	6,009	1,190	16.5%
Parks, Recreation & Neighborhood Services	42,403	41,659	744	1.8%
Planning, Building & Code Enforcement	32,907	30,142	2,765	8.4%
Police	234,234	231,369	2,865	1.2%
Public Works	7,777	8,395	(618)	(7.9%)
Redevelopment Agency	1,490	1,189	301	20.2%
Transportation	32,160	31,950	210	0.7%
Subtotal	591,560	579,416	12,144	2.1%
Non-Departmental				
City-Wide Expenses	130,515	88,369	42,146	32.3%
Capital Contributions	30,166	18,622	11,544	38.3%
Transfers	6,157	6,157	-	0.0%
Earmarked Reserves	78,901	-	78,901	100.0%
Contingency Reserve	24,873	-	24,873	100.0%
Subtotal	270,612	113,148	157,464	58.2%
TOTALS	\$ 862,172	\$ 692,564	\$ 169,608	19.7%

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Variances by Department

- *Cultural Affairs*

The Cultural Affairs Department expended 77.7% of its General Fund Budget with resulting savings of \$537,000. By budget category, \$50,000 of the savings was in Personal Services and \$487,000 in Non-Personal/Equipment. A majority of the Non-Personal/Equipment savings is related to grant-related and other programs that have not yet been completed. A portion of this savings (\$149,000) was rebudgeted as part of the 2005-2006 Adopted Budget. An additional \$150,000 for International Symposium on Electronic Arts (\$70,000), Technical Assistance and Outreach Programs (\$54,000), and Exhibits in the Rotunda of the New City Hall (\$26,000) is recommended to be rebudgeted in this report.

- *Environmental Services*

At the end of 2004-2005, the Environmental Services Department had expended 68.5% of its total modified budget of \$1.75 million, with resulting savings of \$552,000. Of this amount, \$213,124 was rebudgeted in the 2005-2006 Adopted Operating Budget for the Silicon Valley Energy Partnership. The remaining variance primarily occurred due to program savings related to garbage and yard waste collections at City facilities (\$230,000) and environmental compliance at closed City landfills (\$47,000). A rebudget of a portion of these savings (\$12,675) to fund PG&E grant funded activities is recommended in this document.

- *Fire*

At the end of 2004-2005, the Fire Department had expended 98.9% of its total modified budget of \$121.5 million, with resulting savings of \$1.3 million. The Personal Services appropriation of \$115.4 million was 99.2% expended, with apparent savings of \$985,000. These Personal Services savings did not actually reflect savings generated by the department, but rather an overestimate of the amount of overexpenditures that needed to be fixed as part of the Mid-Year Review clean-up action approved by Council. Based on estimates developed earlier in the year, the Department received a \$1.1 million increase in its personal services allocation and shifted \$100,000 of eligible personal services expenditures from the General Fund to the Fire C&C Tax Fund appropriation as part of the 2004-2005 Mid-Year Budget Review, in order to prevent a budget overrun at year-end. As a result of a significant augmentation to 2005-2006 budgeted overtime expenses for the department, the Administration believes sufficient Personal Services funding is available in 2005-2006.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Variances by Department (Cont'd.)

- *Fire (Cont'd.)*

Overtime expenditures of \$10.7 million ended the year \$2.9 million above the modified budget level of \$7.8 million. Overtime usage is largely attributed to fulfilling minimum staffing requirements. A higher than budgeted level of sworn absences experienced during the year resulted in higher overtime usage, offset by salary savings. In addition, higher than estimated overtime expenditures were due to the continuation of the paramedic accreditation training program.

The Fire Department ended the year with a total of 243 filled paramedics (146 front-line, 5 Supervisors, and 92 support), compared to the 147 front line medics that are necessary to fully staff all apparatus. This represents the highest level of filled paramedics in the Department's history. On August 30, 2004, the Department initiated a new Firefighter Academy composed of 21 certified Paramedics. The sixteen-week academy was completed in December 2004 with 18 new firefighters reporting for line duty in January 2005. An additional recruit completed his final manipulative exams in April 2005. In order to maintain the appropriate staffing levels necessary, a new Firefighter Academy recently began at the time of the writing of this document.

The Department's Non-Personal/Equipment budget was 95.2% expended, with year-end savings of \$290,000.

- *Planning, Building and Code Enforcement*

The Planning, Building and Code Enforcement Department (PBCE) expended 91.6% of its General Fund budget, with resulting savings of \$2.76 million. By budget category, \$1,108,000 of the savings was in Personal Services and \$1,657,000 in Non-Personal/Equipment. The majority of the Personal Services savings was in the Community Code Enforcement Core Service (\$531,000), the fee program (\$277,000), and planning services (\$240,000) due to vacant positions. The savings in the fee program are recommended in this document to be added to the Fee Reserves to reconcile actual fee program expenditures for 2004-2005. A portion of the savings in Planning Services is being recommended elsewhere in this document to be set aside for the Comprehensive General Plan Update that is scheduled to begin in 2006-2007. These savings were realized due to the hours that other City staff worked on the Evergreen Visioning Project and Coyote Valley Specific Plan. These project efforts are 100% reimbursed by property owners.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Variances by Department (Cont'd.)

- *Planning, Building and Code Enforcement (Cont'd.)*

A large portion of the Non-Personal/Equipment savings (\$791,000) was anticipated and rebudgeted to 2005-2006. The following projects were included in that rebudget amount: Relocation of Inspection Services (\$300,000), Multiple Housing Database Conversion (\$102,000), Contractual Plan Check (\$100,000), Development Services Website and Computer Related Equipment (\$165,000), Code Enforcement Grant (\$49,294), Tree Mitigation Services (\$45,000), and Historic Consulting Services in SNI areas (\$30,000). In addition, a portion of the savings in Non-Personal/Equipment is the result of the planned decrease in expenditures in development-related areas (\$404,000). Additional rebudgets of \$250,000 of unexpended funds are recommended elsewhere in this report. They include \$150,000 to complete the purchase of various computer and software related equipment whose funding was added mid-year for the development fee program, \$50,000 for contractual plan check, and \$50,000 for consulting design services to create an Architectural Review Committee for the purpose of reviewing high rise development in Downtown redevelopment project areas.

When comparing the program budgets with the actual costs for Building and Planning Permits, an excess of \$716,000 and \$149,000 respectively results. These excesses are proposed in this document to be added to the existing reserves for development-related activities and to support the addition of a temporary Planner position to provide sufficient resources for public information services in the new Development Services Center on the first two floors of the new City Hall. The temporary position is necessary in order to continue to meet regular cycle time targets and to ensure the successful operation of the new two-floor Customer Service Center and will be funded by the Building program.

- *Police*

The Police Department expended 98.8% of its total budget with resulting savings of \$2.9 million. Approximately \$2.1 million of these savings was in the Personal Services category. Overtime expenditures of \$5.5 million at year-end were 13.0% below the modified budget of \$6.3 million. Implementation of Department guidelines on overtime usage and proactive management of the overtime budget enabled the Department to keep expenditures below its allocation by year-end. The Department's compensatory time balance was 203,231 hours at the end of fiscal year 2004-2005. This balance was 2.2% above the 2003-2004 year-end balance of 198,888 hours.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Discussion of Significant Variances by Department (Cont'd.)

- *Police (Cont'd.)*

In accordance with the Memorandum of Agreement (MOA) with the Police Officers Association, sworn personnel are able to maintain 240 hours of compensatory time. Sworn personnel with compensatory time balances that exceed 240 hours at the end of the calendar year are required to reduce those balances to within the 240-hour limit within six months. All Police sworn personnel were able to meet the MOA requirements this year.

The Department's Non-Personal/Equipment budget was 95.5% expended, with savings of about \$787,000. About \$972,000 of estimated savings in Non-Personal/Equipment were rebudgeted to 2005-2006 as part of the Adopted Budget for Police vehicle replacement (\$800,000) and to complete grant-related activities, notably for the interoperability project and child interview center. As actual Non-Personal/Equipment expenditures savings of \$787,000 were lower than estimated when the 2005-2006 Budget was adopted, a downward adjustment of \$185,000 to the Department's rebudget amount is included in this document.

- *Public Works*

At year-end, the Public Works Department exceeded its personal services budget by \$678,000, while ending the year with \$60,000 in non-personal/equipment savings. Overtime expenditures of \$54,000 however, were well below the modified budget of \$116,000. On September 20, 2005 the City Council ratified retroactive increases to various appropriations, including the overage in the Public Works Personal Services appropriation. The overage was entirely related to Development Fee Program activities (\$528,000) and Special Assessment District related activities (\$150,000). Although revenues for the department's Special Assessment District related activities were collected and recognized by the General Fund, an appropriation was not requested in a timely manner to recognize the related expenditures. Also, during 2004-2005, the Fee Program experienced workload increases higher than originally estimated in the construction inspection areas for private development projects.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances

The non-departmental categories consist of City-Wide Expenses, Capital Contributions, Transfers from the General Fund, Earmarked Reserves, and the Contingency Reserve. An overview of the expenditure performance in these categories is provided below:

TABLE E
2004-2005
NON-DEPARTMENTAL GENERAL FUND EXPENDITURES
(In \$000s)

Category	Modified Budget	Actual	Variance	% Variance
<i>City-Wide Expenses</i>	\$ 130,515	\$ 88,369	\$ 42,146	32.3%
<i>Capital Contributions</i>	30,166	18,622	11,544	38.3%
<i>Transfers</i>	6,157	6,157	-	0.0%
<i>Earmarked Reserves</i>	24,873	-	24,873	100.0%
<i>Contingency Reserve</i>	78,901	-	78,901	100.0%
Total	\$ 270,612	\$ 113,148	\$ 157,464	58.2%

- *City-Wide Expenses*

A total of 67.7% of the General Fund appropriation for City-Wide Expenses was expended, resulting in savings of \$42.1 million. Approximately 81% of this amount, \$34.2 million was rebudgeted as part of the 2005-2006 Adopted Budget. Additional net adjustments totaling \$6.6 million are also recommended as a result of the year-end review, including additional rebudgets, downward adjustments to those appropriations that did not generate the amount of savings required to support rebudgets already approved and revenue-related increases. Details of additional individual projects recommended for rebudget, rebudget adjustments and other appropriation adjustments are shown in Section III.

After accounting for only the rebudgets already approved (\$34.2 million), and those recommended in this report (\$6.6 million, net of other adjustments), net savings in the City-Wide Expenses category totals approximately \$1.3 million. The largest amounts of savings were realized in the following areas:

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

- *City-Wide Expenses (Cont'd.)*

Economic & Neighborhood Development – 2004-2005 budget to actual savings realized in this category were \$15.2 million. The 2005-2006 Adopted Budget included rebudgets totaling \$12.2 million, the most significant of which included \$7.2 million for Evergreen Smart Growth Strategy, and \$4.8 million for the Coyote Valley Specific Plan. Additional net adjustments are recommended as part of this report totaling \$2.7 million and include, but are not limited to, additional unspent funds in Coyote Valley (\$2.2 million) and Evergreen (\$48,000), and Neighborhood Strip Revitalization (\$298,000). After accounting for all rebudgets, adjusted net savings in this category totaled \$300,000.

Environmental & Utilities Services – 2004-2005 budget to actual savings realized in this category were \$787,000. The 2005-2006 Adopted Budget included a rebudget of \$750,000 for the Low Income Energy Fund. After accounting for this rebudget, net savings in this category totaled \$37,000.

Public Safety – 2004-2005 budget to actual savings realized in this category were \$6.2 million. The 2005-2006 Adopted Budget included rebudgets totaling \$5.8 million, the most significant of which included \$2.7 million for Urban Area Security Initiative, \$544,000 for the Automated Fingerprint ID System, \$495,000 for the Automated Information System, and \$395,000 for the Metropolitan Medical Task Force. Additional net adjustments are recommended as part of this report totaling \$0.4 million and are primarily adjustments to unspent funds in various public safety grants. After accounting for all rebudgets, adjusted net savings in this category totaled \$100,000.

Recreation and Cultural Services – 2004-2005 budget to actual savings realized in this category were \$3.7 million. The 2005-2006 Adopted Budget included rebudgets totaling \$3.2 million, the most significant of which included \$806,000 for the Neighborhood Revitalization Strategy, \$496,000 for the Animal Care and Service Program, and \$650,000 for the Hoffman/Via Monte Neighborhood Youth Center. Additional net adjustments are recommended as part of this report totaling \$494,000 and include, but are not limited to, CA 21st Century Community Learning Center (\$260,000) and Packard Foundation for Education (\$188,000) grants. After accounting for all rebudgets, adjusted net savings in this category totaled \$0.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

- *City-Wide Expenses (Cont'd.)*

Transportation Services – 2004-2005 budget to actual savings realized in this category were \$470,000 and primarily reflect savings in the Sidewalk Fund (\$255,000) and Processing of Citations (\$215,000).

Strategic Support – 2004-2005 budget to actual savings realized in this category were \$14.1 million. The 2005-2006 Adopted Budget included rebudgets totaling \$12.4 million, the most significant of which included \$5.7 million for Workers' Compensation Claims, \$3.5 million for General Liability Claims, \$1.0 million for Senior Staff Housing Loan Program, and \$497,000 for the Revenue Enhancement/Consulting Services. Additional net adjustments are recommended as part of this report totaling \$3.0 million and include, but are not limited to, \$1.19 million for Workers' Compensation Claims, \$629,000 for Sick Leave Payments upon Retirement and \$513,000 for General Liability Claims. After accounting for all rebudgets, therefore, adjusted net savings in this category totaled \$1.3 million. The largest amount of savings occurred in the Customer Service and Information Center appropriation (\$225,000), with smaller amounts in various other appropriations.

- *Capital Contributions*

In 2004-2005, the General Fund provided funding totaling \$30.2 million for capital projects. Of this amount, approximately \$11.5 million was unexpended at year-end. The projects with the largest unexpended balances included:

<u>Capital Projects</u>	<u>(\$000s)</u>
COPS 2003-2004 Interoperable Communications	4,818
Fire Station Replacement and Repair	1,345
Tamien Station Skateboard	622
Parks and Recreation Bond Projects	588
Southside Community Center Portables	547
Towers Lane Improvements	476
Alviso Education Center	425
Arena Repairs	315
Los Paseos Youth and Family Center	272
Northside Center Project	238
All Other Projects	<u>1,898</u>
Total Unexpended Capital Projects	\$ 11,544

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

- *Capital Contributions (Cont'd.)*

Of the \$11.5 million in unexpended funds, a large portion (\$10.7 million) was rebudgeted as part of the 2004-2005 Adopted Budget. An additional net total of \$0.7 million in rebudget adjustments are recommended in this report. After adjusting for these rebudgets, the net savings in the General Fund Capital category is only \$133,000, which was generated from over 60 projects city-wide.

- *Transfers*

Actual Transfers to other funds totaled \$6.2 million with all transfers being completed as budgeted.

- *Reserves*

General Fund Reserve categories include Earmarked Reserves, the Contingency Reserve, and the Ending Fund Balance Reserve. On June 30, 2005, the total Reserve balance was \$103.8 million. Of this amount, \$66.9 million represented Earmarked Reserves, the largest of which were the 2005-2006 Future Deficit Reserve (\$12.5 million); Development-Related Activities Reserves (\$11.1 million), Economic Uncertainty Reserve (\$10.4 million); Workers' Compensation Reserve (\$10.0 million); Enhanced Park Maintenance (\$6.3 million), and Future Capital Projects (FF&E) Reserve (\$5.2 million).

All of the Earmarked Reserves were approved for rebudget to 2005-2006 (\$42.9 million) as part of the Adopted Budget and appropriated as reserves, or were used as solutions to the 2005-2006 General Fund shortfall (\$24.0 million). The Ending Fund Balance Reserve of \$12.0 million was assumed as available for allocation as part of the 2005-2006 available Beginning Fund Balance.

At the end of the year, the General Fund Contingency Reserve balance was \$24.9 million. During 2004-2005, the Contingency Reserve actually increased by a net total of \$400,000 from the Adopted Budget level of \$24.5 million. The following adjustments were approved during the year:

- A decrease of \$563,000 to provide a deposit towards the acquisition of the FMC property located at 1125 Coleman Avenue.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Highlights of Non-Departmental Expenditures and Variances (Cont'd.)

- *Reserves (Cont'd.)*
 - A decrease of \$34,949 to provide the City's share of matching funds to the Local Law Enforcement Block Grant Fund as required by the Federal Grant.
 - An increase of \$1.5 million to reflect the return of the amount set aside to guarantee a letter of credit on behalf of the Silicon Valley Football Classic, as none of this funding was actually required.
 - A decrease of \$50,000 to provide an independent investigation regarding the allegations of wrongful termination and improper or illegal conduct by Councilmember Gregory.
 - An increase of \$563,000 to reflect the return of the FMC land purchase deposit.
 - A decrease of \$253,000 to provide a deposit towards the acquisition of the FMS Phase II property.
 - A decrease of \$320,000 to pay for a special election in Council District 7.
 - A decrease of \$153,000 to pay for part of the Animal Care Center Spay and Neuter Clinic.
 - A decrease of \$90,264 to provide additional resources for the investigation related to the Request for Proposals for the converged network technology for the new City Hall.
 - A decrease of \$15,000 to provide additional resources for the independent investigation regarding the allegations of wrongful termination and improper or illegal conduct by Councilmember Gregory.
 - A decrease of \$34,482 to make an advance payment of the Operation and Maintenance Payment due the Mexican Heritage Cultural Gardens on July 1, 2005 per the Second Amendment to the loan agreement.
 - A decrease of \$150,000 to provide legal services in connection with labor relations and employment matters.

The year-end General Fund Contingency Reserve balance of \$24.9 million represented approximately 3.1% (slightly exceeding the City Council policy level of 3%) of total budgeted expenditures (excluding encumbrances, the Contingency Reserve, and the Workers' Compensation Reserve). At the beginning of each year, the reserve is established to meet the City Council's reserve policy level of at least 3% of expenditures. During the year, however, the reserve level may drop below 3% if there are significant additions to General Fund expenditures, or if there are significant uses of the Contingency Reserve.

Review of Overtime Expenditure Performance

Throughout the fiscal year, the Administration closely monitors and reports on overtime expenditures in the Monthly Financial Reports. A review of the overtime performance has been included in this report to provide an overall reconciliation for the year and to address the City Council's interest in this particular category.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Review of Overtime Expenditure Performance (Cont'd.)

As approved by City Council in January 2004, one of the budget control actions implemented by the Administration was to create procedures to have all overtime expenditures be personally pre-approved by department directors, and to require that overtime be used for only emergency or genuinely unavoidable purposes. With these controls in place, departments generally stayed within budgeted levels, with only two departments exceeding their General Fund overtime budgets: the Fire and General Services Departments.

While General Fund overtime expenditures in 2004-2005 represented only 3.5% of the total General Fund personal services expenditures, they do provide an important tool for departments to meet service demands. This is especially true given this City's long-standing philosophy of maintaining permanent staffing at the smallest level possible. Given the minimal staffing available, use of overtime is often the most cost efficient, or the only way that a department can respond to unforeseen variations in service requirements. For most departments, overtime is typically used to offset the impact of vacancies, to address increases in activity levels, to respond to seasonal workload increases, or to implement service improvements.

The 2004-2005 departmental overtime line-item expenditures in the General Fund and all other funds have been analyzed to ascertain whether departments remained within their overtime allocations and to identify the causes for any significant expenditures in excess of this allocation. Overages of any significant size occurred in only two departments.

General Services Department's overtime expenditures exceeded budget by \$18,000 (5.1%) primarily to offset the high vacancy rate in Fleet Management, ensuring repairs were completed to maintain public safety fleet availability and to meet Occupational Safety and Health Administration inspection requirements. In addition, overtime was used in Facilities Management to provide holiday coverage, respond to emergencies after hours, and provide special event set-up services.

The Fire Department's overtime expenditure exceeded budget by a large amount, \$2.9 million (36.9%). The Department's overtime usage was largely attributed to fulfilling minimum staffing requirements, notably for filling paramedic duty positions. Delays in the paramedic accreditation training program and a higher than budgeted number of sworn vacancies experienced in the Department contributed to the higher level of overtime usage. A detailed discussion of this matter is provided in *Discussion of Significant Variances by Department* that can be found earlier in this section.

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GENERAL FUND EXPENDITURE PERFORMANCE (CONT'D.)

Review of Overtime Expenditure Performance (Cont'd.)

The Police Department's overtime expenditures of \$5.5 million at year-end, conversely, were significantly (12.8%) below the modified budget of \$6.3 million. Implementation of Department guidelines on overtime usage and proactive management of the overtime budget continue to be very successful and enabled the Department to keep expenditures well below its allocation by year-end. Significant savings in overtime usage were also realized in administrative functions and other non-emergency response activities.

TABLE F
2004-2005
Departmental Over-Time Expenditures and Variances

Department	Modified Overtime Budget General Fund	Modified Overtime Budget Other Funds	Modified Overtime Budget TOTAL	Overtime Actuals General Fund	Overtime Actuals Other Funds	Overtime Actuals TOTAL	Total Budget to Actuals Variance	% Variance
Airport	\$ -	\$ 388,709	\$ 388,709	\$ -	\$ 194,017	\$ 194,017	\$ 194,692	50.1%
City Attorney	31,068	-	31,068	910	-	910	30,158	97.1%
City Auditor	-	-	-	-	-	-	-	N/A
City Clerk	1,670	-	1,670	48	-	48	1,622	97.1%
City Manager	83,399	-	83,399	29,638	-	29,638	53,761	64.5%
Conv, Arts, & Entertain	-	259,006	259,006	774	220,668	221,442	37,564	14.5%
Economic Development	-	-	-	-	-	-	-	N/A
Emergency Services	-	-	-	-	-	-	-	N/A
Employee Services	24,755	-	24,755	2,752	-	2,752	22,003	88.9%
Environmental Services	-	912,821	912,821	(103)	739,381	739,278	173,543	19.0%
Finance	25,190	26,114	51,304	6,872	1,555	8,427	42,877	83.6%
Fire	7,792,561	-	7,792,561	10,668,124	191	10,668,315	(2,875,754)	(36.9%)
General Services	195,534	165,280	360,814	182,481	196,628	379,109	(18,295)	(5.1%)
Mayor & City Council	-	-	-	2,140	-	2,140	(2,140)	N/A
Housing	-	31,880	31,880	-	875	875	31,005	97.3%
Independent Police Auditor	4,419	-	4,419	3,701	-	3,701	718	16.2%
Information Technology	114,011	-	114,011	97,143	32	97,175	16,836	14.8%
Library	144,844	40,000	184,844	20,963	29,842	50,805	134,039	72.5%
Parks, Rec & Neigh Svcs	403,389	-	403,389	362,834	2,845	365,679	37,710	9.3%
Planning, Bldg & Code Enf	379,416	-	379,416	258,039	1,318	259,357	120,059	31.6%
Police	6,298,802	-	6,298,802	5,490,562	-	5,490,562	808,240	12.8%
Public Works	116,018	3,430	119,448	54,237	12,825	67,062	52,386	43.9%
Transportation	454,622	395,267	849,889	260,690	187,066	447,756	402,133	47.3%
	\$ 16,069,698	\$ 2,222,507	\$ 18,292,205	\$ 17,441,805	\$ 1,587,243	\$ 19,029,048	\$ (736,843)	(4.0%)